



PROPOSED RULE MAKING

CR-102 (July 2022) (Implements RCW 34.05.320) Do NOT use for expedited rule making

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STATE OF WASHINGTON
FILED

DATE: May 06, 2024

TIME: 9:51 AM

WSR 24-11-013

Agency: Department of Financial Institutions

Original Notice

Supplemental Notice to WSR _____

Continuance of WSR _____

Preproposal Statement of Inquiry was filed as WSR 23-08-058 ; or

Expedited Rule Making--Proposed notice was filed as WSR _____; or

Proposal is exempt under RCW 34.05.310(4) or 34.05.330(1); or

Proposal is exempt under RCW _____.

Title of rule and other identifying information: (describe subject) Broker-Dealers and Salespersons of Broker-Dealer

Hearing location(s):

Date: Time: Location: (be specific) Comment:

June 26, 2024	10:30am	Dept. of Financial Institutions 150 Israel Rd SW Tumwater, WA 98501	
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Date of intended adoption: June 27, 2024 (Note: This is NOT the effective date)

Submit written comments to:

Name: Jill Vallely

Address: P.O. Box 41200, Olympia, WA 98504-1200

Email: jill.vallely@dfi.wa.gov

Fax: (360) 902-0524

Other:

By (date) June 25, 2024

Assistance for persons with disabilities:

Contact Keera Earskine

Phone: (360) 902-8760

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Other:

By (date) June 25, 2024

Purpose of the proposal and its anticipated effects, including any changes in existing rules: The proposed rulemaking creates a new chapter of rules for broker-dealers and salespersons of broker-dealers at Chapter 460-20C WAC, and repeals the existing rules in Chapters 460-20B WAC, 460-21B WAC, and 460-22B WAC. The proposed rules update the rules consistent with current federal law and FINRA rules, incorporate NASAA model rules, and describe the application filing procedures and registration requirements for broker-dealers and salespersons. As compared to the current rules, the proposed rules:

- Add a statement that the rules in the chapter apply to broker-dealers to the extent permitted by the National Securities Markets Improvement Act of 1996.
- Add definitions for "Branch Office," "Chief Compliance Officer," "Principal," "FINRA," "FINRA member," "Form BD," "Form BR," "Form BDW," "Form U4," and "Form U5."
- Add a definition for "Solicited" based on Securities Act Interpretive Statement 16.
- Describe and clarify current application procedures for both FINRA member and non-member broker-dealers with respect to initial applications, renewals, and amendments.
- Describe and clarify the current application procedures for registering as a salesperson of a broker-dealer.
- Add a requirement for persons who supervise salespersons in Washington to register as salespersons in Washington.
- Add a requirement of the notification of branch office on Form BR.
- Update the Canadian broker-dealer exemption to specify the current exemption notice filing procedures, including that broker-dealers must submit a consent to service of process (Form U2).
- Clarify that a broker-dealer must maintain at least one principal who has passed the Series 24.
- Adopt the NASAA Model Rule: Examination Requirements for Broker-Dealer Agents, which will extend the validity of exam scores for up to five years for persons who participate in the FINRA Maintaining Qualifications Program and the NASAA Examination Validity Extension Program.

- Add a new rule allowing the Securities Division, after providing at least 30-days' notice, to terminate pending applications on which an applicant has taken no action for 9 months.
- Add a procedure for effecting the mass transfer of salespersons.
- Add a rule requiring the filing of Form BDW to terminate a broker-dealer registration.
- Update and specify the current federal rules that apply with respect to minimum capital requirements, reserve and custody requirements, books and records, and financial reporting requirements.
- Specify that FINRA members must file the financial statements required by the Securities and Exchange Commission in Washington upon request.
- Specify that non-members of FINRA must file financial statements annually through the Securities Division's eFin filing system, and that the Securities Division may require quarterly filings upon request.
- Revise the supervision rule to state that broker-dealers must reasonably supervise employees (in addition to its salespersons), must comply with supervision requirements in FINRA conduct standards, and must comply with training regarding detecting the financial exploitation of vulnerable adults consistent with the existing requirements in RCW 74.34.220(3). The revision removes the existing requirement that the supervisors of salespersons in Washington be located in Washington, and provides that the Securities Division may require heightened supervision as a condition of salesperson registration.
- Revise the fraudulent practices rule to specify additional fraudulent practices, including making false or misleading statements in examinations or in documents filed with the Securities Division, holding out as providing investment advisory services if not registered as an investment adviser, and giving gifts in excess of one hundred dollars per individual per year where the gift is in relation to the business of the employer of the recipient (consistent with FINRA Rule 3220).
- Revise the excessive trading rule to clarify that the Securities Division may consider cost-to-equity ratio and turnover ratio, as well as other methods, to determine whether trading is excessive.
- Add a communications rule that adopts the content standards in FINRA Rule 2210(d)(1)(A), (B), (D), (E), and (d)(3).
- Add a variable annuities sales practices rule based on FINRA Rule 2330.
- Revise the rule regarding unethical practices of broker-dealers to add additional unethical practices, including practices specified in the most recent version of the NASAA Dishonest or Unethical Practices of Broker-Dealers Model Rule.
- Revise the rule regarding unethical practices of salespersons to add additional unethical practices, including practices specified in the most recent version of the NASAA Dishonest or Unethical Practices of Broker-Dealers Model Rule.

Reasons supporting proposal: The Securities Division has not updated its rules for broker-dealers and salespersons of broker-dealers in many years, and several of the rules need revision to make them consistent with federal law, FINRA rules, NASAA model rules, or the Securities Division's current licensing procedures. The consolidation of the three current rule chapters into a single chapter will make the rules easier to use. The proposed rules clarify the filing procedures and requirements applicable to broker-dealers who are not members of FINRA, which the current rules do not address. These updates will improve the functionality of the rules, promote uniformity with federal law and other states, and increase investor protection.

Statutory authority for adoption: RCW 21.20.070, RCW 21.20.450

Statute being implemented: RCW 21.20

Is rule necessary because of a:

- | | | |
|-------------------------|---|--|
| Federal Law? | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| Federal Court Decision? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| State Court Decision? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

If yes, CITATION:

Agency comments or recommendations, if any, as to statutory language, implementation, enforcement, and fiscal matters:

Type of proponent: Private Public Governmental

Name of proponent: (person or organization) Department of Financial Institutions

Name of agency personnel responsible for:

	Name	Office Location	Phone
Drafting:	Jill Vallely	150 Israel Road SW, Tumwater, WA 98501	(360) 902-8760
Implementation:	Mark Kissler	150 Israel Road SW, Tumwater, WA 98501	(360) 902-8760
Enforcement:	Bill Beatty, Director, Securities	150 Israel Road SW, Tumwater, WA 98501	(360) 902-8760

Is a school district fiscal impact statement required under [RCW 28A.305.135](#)? Yes No

If yes, insert statement here:

The public may obtain a copy of the school district fiscal impact statement by contacting:

Name:
Address:
Phone:
Fax:
TTY:
Email:
Other:

Is a cost-benefit analysis required under [RCW 34.05.328](#)?

Yes: A preliminary cost-benefit analysis may be obtained by contacting:

Name:
Address:
Phone:
Fax:
TTY:
Email:
Other:

No: Please explain: The Department of Financial Institutions is not one of the agencies listed in RCW 34.05.328.

Regulatory Fairness Act and Small Business Economic Impact Statement

Note: The [Governor's Office for Regulatory Innovation and Assistance \(ORIA\)](#) provides support in completing this part.

(1) Identification of exemptions:

This rule proposal, or portions of the proposal, **may be exempt** from requirements of the Regulatory Fairness Act (see [chapter 19.85 RCW](#)). For additional information on exemptions, consult the [exemption guide published by ORIA](#). Please check the box for any applicable exemption(s):

This rule proposal, or portions of the proposal, is exempt under [RCW 19.85.061](#) because this rule making is being adopted solely to conform and/or comply with federal statute or regulations. Please cite the specific federal statute or regulation this rule is being adopted to conform or comply with, and describe the consequences to the state if the rule is not adopted.

Citation and description:

This rule proposal, or portions of the proposal, is exempt because the agency has completed the pilot rule process defined by [RCW 34.05.313](#) before filing the notice of this proposed rule.

This rule proposal, or portions of the proposal, is exempt under the provisions of [RCW 15.65.570](#)(2) because it was adopted by a referendum.

This rule proposal, or portions of the proposal, is exempt under [RCW 19.85.025](#)(3). Check all that apply:

[RCW 34.05.310](#) (4)(b)
(Internal government operations)

[RCW 34.05.310](#) (4)(e)
(Dictated by statute)

[RCW 34.05.310](#) (4)(c)
(Incorporation by reference)

[RCW 34.05.310](#) (4)(f)
(Set or adjust fees)

[RCW 34.05.310](#) (4)(d)
(Correct or clarify language)

[RCW 34.05.310](#) (4)(g)
((i) Relating to agency hearings; or (ii) process requirements for applying to an agency for a license or permit)

This rule proposal, or portions of the proposal, is exempt under [RCW 19.85.025](#)(4) (does not affect small businesses).

This rule proposal, or portions of the proposal, is exempt under RCW _____.

Explanation of how the above exemption(s) applies to the proposed rule:

(2) Scope of exemptions: Check one.

The rule proposal is fully exempt (*skip section 3*). Exemptions identified above apply to all portions of the rule proposal.

The rule proposal is partially exempt (*complete section 3*). The exemptions identified above apply to portions of the rule proposal, but less than the entire rule proposal. Provide details here (consider using [this template from ORIA](#)):

The rule proposal is not exempt (*complete section 3*). No exemptions were identified above.

(3) Small business economic impact statement: Complete this section if any portion is not exempt.

If any portion of the proposed rule is **not exempt**, does it impose more-than-minor costs (as defined by RCW 19.85.020(2)) on businesses?

- No Briefly summarize the agency's minor cost analysis and how the agency determined the proposed rule did not impose more-than-minor costs. _____
- Yes Calculations show the rule proposal likely imposes more-than-minor cost to businesses and a small business economic impact statement is required. Insert the required small business economic impact statement here:

Small Business Economic Impact Statement

Chapter 460-20C WAC
Broker-Dealers and Salespersons of Broker-Dealers

April 16, 2024

SECTION 1:

Description of the Proposed Rule Chapter

The Department of Financial Institutions, Securities Division has prepared this Small Business Economic Impact Statement (SBEIS) in support of the proposal of a new chapter of rules, Chapter 460-20C WAC, pertaining to broker-dealers and salespersons of broker-dealers. The proposed rulemaking will repeal the existing rules for broker-dealers and salespersons in Chapters 460-20B, 460-21B, and 460-22B. The Securities Division's broker-dealer rules have not been significantly updated in over 20 years, and several rules are outdated with respect to current federal law and the Securities Division's current licensing practices.

Prior to preparing this Small Business Economic Impact Statement in support of the proposed rules, the Securities Division prepared a preliminary draft of potential rule revisions. In December 2023, the Securities Division posted the draft rules on its website, and conducted an electronic mailing to all broker-dealers registered in Washington. In the mailing, the Securities Division distributed a link to the draft rules and a link to a small business economic impact survey. The results of the survey are discussed in Sections 3 through 6 of this Small Business Economic Impact Statement.

The preliminary rules draft combined the three current rule chapters into a single chapter for ease of use. The draft revised the existing rules to reflect the Securities Division's current licensing procedures and practices, and added filing procedures and requirements specific to broker-dealers who are not members of FINRA. The draft also updated existing rules to bring Washington's broker-dealer rules up to date with federal rules and FINRA rules, and to incorporate NASAA model rules, among other updates. As compared to the current rules for broker-dealers, the preliminary rules draft included the following substantive changes:

- Added a statement that the rules in the chapter apply to broker-dealers to the extent permitted by the National Securities Markets Improvement Act of 1996.
- Added definitions for "Branch Office," "Chief Compliance Officer," "Principal," "FINRA," "FINRA member," "Form BD," "Form BR," "Form BDW," "Form U4," and "Form U5."
- Added a definition for "Solicited" based on [Securities Act Interpretive Statement 16](#).
- Described and clarified current application procedures for both FINRA member and non-member broker-dealers with respect to initial applications, renewals, and amendments.
- Described and clarified the current application procedures for registering as a salesperson of a broker-dealer.
- Added a requirement for principals to register as salespersons in Washington.*
- Added a requirement for persons who supervise salespersons in Washington to register as salespersons in Washington.
- Added a requirement of the notification of branch office on Form BR.
- Updated the Canadian broker-dealer exemption to specify current exemption notice filing procedures, including that broker-dealers must submit a consent to service of process (Form U2).
- Clarified that a broker-dealer must maintain at least one principal who has passed the Series 24.
- Adopted the NASAA Model Rule: Examination Requirements for Broker-Dealer Agents, which will extend the validity of exam scores for up to five years for persons who participate in the FINRA Maintaining Qualifications Program and the NASAA Examination Validity Extension Program.
- Added a new rule allowing the Securities Division, after providing at least 30-days' notice, to terminate pending applications on which an applicant has taken no action for 9 months.
- Increased the fee for delinquent applications from \$100 to \$200, as permitted by RCW 21.20.340(8).*
- Required salespersons to file a current business email address electronically with the Securities Division.*
- Added a procedure for effecting the mass transfer of salespersons.
- Added a rule requiring the filing of Form BDW to terminate a broker-dealer registration.
- Updated and specified the current federal rules that apply with respect to minimum capital requirements, reserve and custody requirements, books and records, and financial reporting requirements.
- Specified that FINRA members must file the financial statements required by the Securities and Exchange Commission in Washington upon request.

- Specified that non-members of FINRA must file financial statements annually through the Securities Division's eFin filing system, and that the Securities Division may require quarterly filings upon request.
- Revised the supervision rule to state that broker-dealers must reasonably supervise employees (in addition to its salespersons), must comply with supervision requirements in FINRA conduct standards, and must comply with training regarding detecting the financial exploitation of vulnerable adults consistent with the existing requirements in RCW 74.34.220(3). The revision removes the existing requirement that the supervisors of salespersons in Washington be located in Washington, and provides that the Securities Division may require heightened supervision as a condition of salesperson registration.
- Revised the fraudulent practices rule to specify additional fraudulent practices, including making false or misleading statements in examinations or in documents filed with the Securities Division, holding out as providing investment advisory services if not registered as an investment adviser, and giving gifts in excess of one hundred dollars per individual per year where the gift is in relation to the business of the employer of the recipient (consistent with FINRA Rule 3220).
- Revised the excessive trading rule to clarify that the Securities Division may consider cost-to-equity ratio and turnover ratio, as well as other methods, to determine whether trading is excessive.
- Added a communications rule that adopts the content standards in FINRA Rule 2210(d)(1)(A), (B), (D), (E), and (d)(3).
- Added a variable annuities sales practices rule based on FINRA Rule 2330.
- Revised the rule regarding unethical practices of broker-dealers to add additional unethical practices, including practices specified in the most recent version of the NASAA Dishonest or Unethical Practices of Broker-Dealers Model Rule.
- Revised the rule regarding unethical practices of salespersons to add additional unethical practices, including practices specified in the most recent version of the NASAA Dishonest or Unethical Practices of Broker-Dealers Model Rule.

*The Securities Division revised or eliminated these provisions upon review of the economic impact survey results, as described in Section 6 below. The proposed rules are otherwise consistent with the preliminary draft rules.

SECTION 2:

Identify which businesses must comply with the proposed rule using the North American Industry Classification System (NAICS) codes and the minor cost thresholds.

All broker-dealers registered or required to be registered in Washington under RCW 21.20.040(1) will be required to comply with the proposed rules. In addition, all salespersons of broker-dealers who are registered or required to be registered in Washington under RCW 21.20.040(1) will be required to comply with the proposed rules.

The NAICS code for securities brokerages is 523150. The minor cost threshold that applies to this rulemaking under the Regulatory Fairness Act, RCW 19.85, is a cost per business of less than three-tenths of one percent of annual revenue or income, or \$100, whichever is greater, or one percent of annual payroll.

SECTION 3:

Analyze the probable cost of compliance.

In drafting the proposed rules, the Securities Division attempted to balance the business concerns of registered broker-dealers with the Securities Division's mission to protect the investing public and to promote confidence in the capital markets. In general, the rule proposals create uniformity with federal law, FINRA rules, and NASAA Model Rules, and are consistent with broker-dealer rules in other states. Washington's rulemaking authority with respect to broker-dealers is limited by the National Securities Markets Improvement Act of 1996 (NSMIA), which restricts states from establishing capital, custody, margin, financial responsibility, recordkeeping, bonding, or financial or operational reporting requirements for broker-dealers that differ from, or are in addition to, the requirements in those areas established under federal law. The Securities Division drafted its proposed rules in consideration of the restrictions under NSMIA. In addition, much of the chapter restates existing rules, or describes current registration procedures followed by the Securities Division. Regardless, we anticipate that compliance with certain of the proposed rules may increase compliance costs for some broker-dealers. While the proposed rules may increase costs to licensees, the Securities Division believes the proposed rules will increase investor protection. Further, as described in Section 6, the Securities Division made certain revisions to the initial rules draft to reduce costs.

Survey of Broker-Dealers

RCW 19.85.040 provides that an agency may survey a representative sample of affected businesses to assist in the accurate assessment of the costs of proposed rules for the preparation of a Small Business Economic Impact Statement. To that end, the Securities Division conducted a survey to gather information from its registered broker-dealers regarding any anticipated cost increases associated with the initial rules draft.

The Securities Division prepared an online survey designed to determine the economic impact of the proposed amendments on small businesses. On December 19, 2023, the Securities Division sent an e-mail containing a link to the online survey to the

Central Registration Depository (CRD) contact person for all Washington-registered broker-dealers. At the time of the survey, the Securities Division had 1746 Washington-registered broker-dealers. The email explained the reasons for conducting the survey and requested that each broker-dealer's Chief Compliance Officer or other appropriate representative complete the online survey by clicking on the provided link. The email also provided links to the draft rules, a copy of the survey questions, and a Section-By-Section Analysis that detailed the changes in the draft rules as compared to the current rules in Chapters 460-20B, 460-21B, and 460-22B WAC. The email noted that respondents could submit a hard copy of the survey in lieu of completing the electronic version.

The survey consisted of 35 questions. Each question in the survey focused on a section of the draft rules and provided a background statement briefly explaining any changes as compared to the current rules. The survey asked whether the proposed changes to each rule section would increase costs. If a respondent answered "yes," the survey requested information on the additional costs of compliance with that rule in the categories of professional services, equipment, supplies, labor, and administrative costs. Each question also provided a free-form response section for survey takers to make comments or provide additional information. The survey requested that responding broker-dealers provide their number of employees. The survey also queried whether the rulemaking in its entirety would cause a loss of revenue or the loss or addition of any jobs.

The survey period lasted from December 20, 2023 until February 1, 2024. The Securities Division received 63 unique responses that provided the respective broker-dealer's number of employees, although some respondents did not complete all the questions in the survey. These 63 respondents included 45 small businesses as defined by RCW 19.85.020(3) of the Regulatory Fairness Act (business with 50 or fewer employees). The Securities Division also received 4 responses that did not provide their number of employees, therefore preventing us from determining whether the businesses were small businesses or calculating their costs per employee.

The following table provides the responses from the survey question regarding whether compliance with the proposed changes to each rule section would create any additional costs:

Whether Rule Changes Would Create Additional Costs		
Rule Provision	Yes	No
Application of Chapter: WAC 460-20C-010	16%	84%
Cross-Reference to Other Sections: WAC 460-20C-015	10%	90%
Definitions: WAC 460-20C-020	0%*	100%
Filings Made Through CRD: WAC 460-20C-025	7%	93%
Registration Procedure: WAC 460-20C-030	39%	61%
Canadian Broker-Dealers and Salespersons: WAC 460-20C-035	4%	96%
Examination Requirements: WAC 460-20C-040	2%	98%
Notice of Termination of Pending Applications: WAC 460-20C-045	0%	100%
Expiration and Renewal of Registration: WAC 460-20C-050	9%	91%
Notice of Changes by Broker-Dealers: WAC 460-20C-060	4%	96%
Submission of Business Email Address: WAC 460-20C-070	17%	83%
Mass Transfer of Salespersons: WAC 460-20C-080	6%	94%
Termination of Broker-Dealer Registration: WAC 460-20C-090	0%	100%
Termination of Salesperson Registration: WAC 460-20C-100	2%	98%
Minimum Net Capital Requirements: WAC 460-20C-110	0%	100%
Reserve and Custody Requirements: WAC 460-20C-120	2%	98%
Books and Records of Broker-Dealers: WAC 460-20C-130	4%	96%
Financial Reporting Requirements: WAC 460-20C-140	2%	98%
Supervision of Salespersons and Employees: WAC 460-20C-150	8%	92%
Fraudulent Practices of Broker-Dealers: WAC 460-20C-160	0%	100%
Excessive Trading: WAC 460-20C-170	4%	96%
Transmission of Underwriting Payments: WAC 460-20C-180	0%	100%
Communications with Public: WAC 460-20C-190	2%	98%
Deferred Variable Annuities: WAC 460-20C-200	2%	98%
Dishonest or Unethical Practices – Broker-Dealers: WAC 460-20C-210	2%	98%
Dishonest or Unethical Practices – Salespersons: WAC 460-20C-220	4%	96%
Will the rules result in lost sales or revenue?	4%	96%
Will the rules cause your business to eliminate jobs?	0%	100%
Will the rules cause your business to add jobs?	2%	98%

*Question included in hard copy survey only.

The Securities Division used the survey data to calculate the increased costs per employee for the broker-dealers responding to the survey in the categories of professional services, equipment, supplies, labor, and administrative costs for each section of the draft rules. The following table provides the average cost increase per employee for each rule for all survey respondents:

Average Cost Increase Per Employee (All Respondents)					
Rule Provision	Prof'l Services	Equipment	Supplies	Labor	Admin
Application of Chapter: WAC 460-20C-010	\$105.70	\$ -	\$ -	\$32.24	\$10.93
Cross-Reference to Other Sections: WAC 460-20C-015	\$10.55	\$ -	\$ -	\$7.02	\$3.54
Definitions: WAC 460-20C-020	\$ -	\$ -	\$ -	\$ -	\$ -
Filings Made Through CRD: WAC 460-20C-025	\$18.67	\$ -	\$ -	\$18.67	\$ -
Registration Procedure: WAC 460-20C-030	\$170.13	\$ -	\$0.53	\$114.89	\$52.34
Canadian Broker-Dealers and Salespersons: WAC 460-20C-035	\$ -	\$ -	\$ -	\$ -	\$ -
Examination Requirements: WAC 460-20C-040	\$3.96	\$ -	\$0.06	\$2.88	\$1.02
Notice of Termination of Pending Applications: WAC 460-20C-045	\$ -	\$ -	\$ -	\$ -	\$ -
Expiration and Renewal of Registration: WAC 460-20C-050	\$0.16	\$ -	\$ -	\$ -	\$0.16
Notice of Changes by Broker- Dealers: WAC 460-20C-060	\$8.00	\$ -	\$ -	\$7.84	\$0.16
Submission of Business Email Address: WAC 460-20C-070	\$11.71	\$ -	\$ -	\$8.32	\$0.79
Mass Transfer of Salespersons: WAC 460-20C-080	\$2.54	\$ -	\$ -	\$1.21	\$1.33
Termination of Broker-Dealer Registration: WAC 460-20C-090	\$ -	\$ -	\$ -	\$ -	\$ -
Termination of Salesperson Registration: WAC 460-20C-100	\$8.00	\$ -	\$ -	\$8.00	\$ -
Minimum Net Capital Requirements: WAC 460-20C-110	\$ -	\$ -	\$ -	\$ -	\$ -
Reserve and Custody Requirements: WAC 460-20C-120	\$ -	\$ -	\$ -	\$ -	\$ -
Books and Records of Broker- Dealers: WAC 460-20C-130	\$1.61	\$ -	\$ -	\$ -	\$ -
Financial Reporting Requirements: WAC 460-20C-140	\$1.18	\$ -	\$ -	\$0.59	\$0.59
Supervision of Salespersons and Employees: WAC 460-20C-150	\$1.09	\$ -	\$ -	\$ -	\$4.34
Fraudulent Practices of Broker- Dealers: WAC 460-20C-160	\$ -	\$ -	\$ -	\$ -	\$ -
Excessive Trading: WAC 460-20C-170	\$1.81	\$ -	\$ -	\$ -	\$0.56
Transmission of Underwriting Payments: WAC 460-20C-180	\$ -	\$ -	\$ -	\$ -	\$ -
Communications with Public: WAC 460-20C-190	\$200	\$ -	\$ -	\$ -	\$200
Deferred Variable Annuities: WAC 460-20C-200	\$ -	\$ -	\$ -	\$ -	\$ -
Dishonest or Unethical Practices – Broker-Dealers: WAC 460-20C-210	\$8.00	\$ -	\$ -	\$8.00	\$ -
Dishonest or Unethical Practices – Salespersons: WAC 460-20C-220	\$7.84	\$ -	\$ -	\$ -	\$7.84

The following table provides the average cost increase per employee only for those broker-dealers who indicated that a particular rule change would create additional costs:

Average Cost Increase Per Employee (Responses Greater than \$0)					
Rule Provision	Prof'l Services	Equipment	Supplies	Labor	Admin
Application of Chapter: WAC 460-20C-010	\$906.01	\$ -	\$ -	\$483.82	\$327.96
Cross-Reference to Other Sections: WAC 460-20C-015	\$300.81	\$ -	\$ -	\$400.00	\$201.61
Definitions: WAC 460-20C-020	\$ -	\$ -	\$ -	\$ -	\$ -
Filings Made Through CRD: WAC 460-20C-025	\$522.73	\$ -	\$ -	\$522.73	\$ -
Registration Procedure: WAC 460-20C-030	\$935.70	\$ -	\$29.41	\$902.71	\$319.88
Canadian Broker-Dealers and Salespersons: WAC 460-20C-035	\$ -	\$ -	\$ -	\$ -	\$ -
Examination Requirements: WAC 460-20C-040	\$205.88	\$ -	\$2.94	\$150.00	\$52.94
Notice of Termination of Pending Applications: WAC 460-20C-045	\$ -	\$ -	\$ -	\$ -	\$ -
Expiration and Renewal of Registration: WAC 460-20C-050	\$8.06	\$ -	\$ -	\$ -	\$8.06
Notice of Changes by Broker-Dealers: WAC 460-20C-060	\$204.03	\$ -	\$ -	\$400.00	\$8.06
Submission of Business Email Address: WAC 460-20C-070	\$99.54	\$ -	\$ -	\$106.14	\$13.51
Mass Transfer of Salespersons: WAC 460-20C-080	\$63.60	\$ -	\$ -	\$60.61	\$33.30
Termination of Broker-Dealer Registration: WAC 460-20C-090	\$ -	\$ -	\$ -	\$ -	\$ -
Termination of Salesperson Registration: WAC 460-20C-100	\$400.00	\$ -	\$ -	\$400.00	\$ -
Minimum Net Capital Requirements: WAC 460-20C-110	\$ -	\$ -	\$ -	\$ -	\$ -
Reserve and Custody Requirements: WAC 460-20C-120	\$ -	\$ -	\$ -	\$ -	\$ -
Books and Records of Broker-Dealers: WAC 460-20C-130	\$80.65	\$ -	\$ -	\$ -	\$ -
Financial Reporting Requirements: WAC 460-20C-140	\$58.82	\$ -	\$ -	\$29.41	\$29.41
Supervision of Salespersons and Employees: WAC 460-20C-150	\$27.37	\$ -	\$ -	\$ -	\$108.62
Fraudulent Practices of Broker-Dealers: WAC 460-20C-160	\$ -	\$ -	\$ -	\$ -	\$ -
Excessive Trading: WAC 460-20C-170	\$45.36	\$ -	\$ -	\$ -	\$28.23
Transmission of Underwriting Payments: WAC 460-20C-180	\$ -	\$ -	\$ -	\$ -	\$ -
Communications with Public: WAC 460-20C-190	\$100,000*	\$ -	\$ -	\$ -	\$100,000*
Deferred Variable Annuities: WAC 460-20C-200	\$ -	\$ -	\$ -	\$ -	\$ -
Dishonest or Unethical Practices – Broker-Dealers: WAC 460-20C-210	\$400.00	\$ -	\$ -	\$400.00	\$ -
Dishonest or Unethical Practices – Salespersons: WAC 460-20C-220	\$400.00	\$ -	\$ -	\$400.00	\$ -

*represents the response of a single survey taker.

The following table presents the survey results for the lost revenue anticipated to be caused by the draft rules as a whole:

Amount of Lost Revenue Caused by the Rules (Per Employee)	
Average of All Survey Respondents	\$132.02
Average of Responses Greater than \$0	\$3,367.65

Discussion of Survey Results:

The survey results indicated that respondents anticipated that certain draft rule sections would be likely to increase costs. These included the draft rules regarding Registration Procedure (39% indicating increased costs), Submission of Business Email Address (17% indicating increased costs), Application of Chapter (16% indicating increased costs), Cross-Reference to Other Sections (10% indicating increased costs), Expiration and Renewal of Registration (9% indicating increased costs), Supervision of Salespersons and Employees (8% indicating increased costs), Filings Made Through CRD (7% indicating increased costs), and Mass Transfer of Salespersons (6% indicating increased costs). We discuss the survey results in further detail below.

WAC 460-20C-030 Registration Procedure

The draft rule WAC 460-20C-030 specified the registration procedure for broker-dealers and salespersons. The rule will replace the existing registration procedures currently in WAC 460-20B-030 (broker-dealers) and WAC 460-22B-030 (salespersons). As compared to the current rules, the draft rule added a requirement for all principals of a broker-dealer in Washington to register as salespersons in Washington. It also added a requirement that persons who supervise salespersons in Washington register as salespersons in Washington. In addition, it added a requirement of notification of branch office by submitting Form BR on CRD.

The requirement added to the draft rules that all principals and supervisors of salespersons operating in Washington register as salespersons in Washington would increase costs for broker-dealers whose principals and supervisors are not currently registered in Washington. The cost of an initial salesperson registration in Washington is \$50 per salesperson, and annual renewals are \$30 per salesperson. To register, salespersons must demonstrate passage of the Series 63 exam. Persons who do not have current exam scores may incur costs to purchase study materials and pay the current examination fee of \$147. Firms may incur professional services, labor, or administrative expenses in preparing and filing Form BR in Washington.

The survey results indicated that approximately 39% of survey respondents believed that the draft rule at WAC 460-20C-030 would increase costs. For all survey respondents, these costs included an average of \$170.13 per employee for professional services, \$0.53 for supplies, \$114.89 for labor, and \$52.34 for administrative costs. Of the 39% of survey respondents who indicated that the rule amendments would increase costs, those costs included an average cost increase per employee of \$935.70 for professional services, \$29.41 for supplies, \$902.71 for labor, and \$319.88 for increased administrative costs. After reviewing the survey results, the Securities Division revised the draft rule to reduce costs, as described in Section 6.

WAC 460-20C-070 Submission of Business Email Address

The initial draft created a new rule, WAC 460-20C-070, that would require broker-dealers to file an email address for each salesperson registered in the Washington, and periodically update the addresses to reflect any changes. Our current rules do not contain this provision, and therefore it would represent a new filing requirement. This would require broker-dealers to develop new internal procedures to ensure compliance with the requirement in Washington, and might increase professional services, labor, or administrative costs.

The survey results indicated that approximately 17% of survey respondents believed that the proposed rule at WAC 460-20C-070 would increase costs. For all survey respondents, these costs included an average of \$11.71 per employee for professional services, \$8.32 for labor, and \$0.79 for administrative costs. Of the 17% of survey respondents who indicated that the rule amendments would increase costs, those costs include an average cost increase per employee of \$99.54 for professional services, \$106.14 for labor, and \$33.30 for increased administrative costs. After reviewing the survey results, the Securities Division revised the draft rule to reduce costs, as described in Section 6.

WAC 460-20C-010 Application of Chapter and WAC 460-20C-015 Cross-Reference to Other Sections

The draft rule WAC 460-20C-010 stated that the chapter applies to broker-dealers and salespersons of broker-dealers. The draft rule was substantially similar to the current rules at WAC 460-20B-010 and WAC 460-22B-010, except that the Securities Division removed a reference to Chapter 460-33A WAC because that chapter was repealed in 2022. In addition, the Securities Division added a statement that the chapter applies to broker-dealers to the extent permitted by the National Securities Markets Improvement Act of 1996. This language merely acknowledges the federal preemption that has applied to the state regulation of broker-dealers since 1996. For these reasons, we do not believe the draft rule represents any substantive changes that would increase costs.

However, the survey results indicated that approximately 16% of survey respondents believed that the proposed rule at WAC 460-20C-010 would increase costs. For all survey respondents, these costs included an average of \$105.70 per employee for professional services, \$32.24 for labor, and \$10.93 for administrative costs. Of the 16% of survey respondents who indicated that the rule amendments would increase costs, those costs include an average cost increase per employee of \$906.01 for professional services, \$483.82 for labor, and \$327.96 for increased administrative costs.

The draft rule WAC 460-20C-015 provided a cross-reference to other chapters that pertain to broker-dealers and salespersons. The draft rule was substantially similar to the current rule at WAC 460-22B-020. As compared to the current rule, the draft rule added a reference to Chapter 460-21C WAC, which concerns to the provision of broker-dealer services on the premises of financial institutions. This rule chapter currently applies to broker-dealers regardless of whether it is mentioned in the cross-reference rule. The Securities Division also removed a reference Chapter 460-33A WAC because that chapter was repealed in 2022. Accordingly, we do not believe the draft rule represents any substantive changes that would increase costs.

The survey results indicated that approximately 10% of survey respondents believed that the proposed rule at WAC 460-20C-015 would increase costs. For all survey respondents, these costs included an average of \$10.55 per employee for professional services, \$7.02 for labor, and \$3.54 for administrative costs. Of the 10% of survey respondents who indicated that the rule amendments would increase costs, those costs include an average cost increase per employee of \$300.81 for professional services, \$400.00 for labor, and \$201.61 for increased administrative costs.

The Securities Division reasonably believes that WAC 460-20C-010 and WAC 460-20C-015 will not increase expenses for broker-dealers because these rules do not represent any substantive change as compared to our current rules. The survey questions regarding the anticipated expenses related to draft rules WAC 460-20C-010 and WAC 460-20C-015 were the first two substantive questions in the survey. Based on our assessment that these draft rules should not increase expenses, we conclude that some survey respondents may have responded to these questions by providing information regarding the economic impact of the rulemaking in its entirety. However, the Securities Division invites interested persons who may disagree with this assessment to submit comments, as specified in the CR-102, to explain why the individual proposed rules WAC 460-20C-010 and WAC 460-20C-015 would increase costs.

WAC 460-20C-050 Expiration and Renewal of Registration

The draft rule WAC 460-20C-050 addressed the expiration and renewal of broker-dealer registration for broker-dealers and salespersons, and would replace the existing provision currently in WAC 460-20B-050 (broker-dealers) and WAC 460-22B-050 (salespersons). The rule clarified the current procedures for the renewal or expiration of registration. The draft rule also raised the delinquency fee for late broker-dealer renewal applications from \$100 to \$200. This would increase costs by \$100 in the event a broker-dealer submitted a delinquent renewal application.

The survey results indicated that approximately 9% of survey respondents believed that the proposed rule at WAC 460-20C-015 would increase costs. For all survey respondents, these costs included an average of \$0.16 per employee for professional services and \$0.16 for administrative costs. Of the 9% of survey respondents who indicated that the rule amendments would increase costs, those costs include an average cost increase per employee of \$8.06 for professional services and \$8.06 for increased administrative costs. After reviewing the survey results, the Securities Division revised the draft rule to reduce costs, as described in Section 6.

WAC 460-20C-025 Filings Made Through CRD

The draft rules included a new rule at WAC 460-20C-025 that designated CRD to receive and store filings and collect fees with respect to initial and renewal applications of FINRA-member broker-dealers. Currently, all broker-dealers who are members of FINRA must submit initial and renewal registration applications through CRD. The draft rule simply reflected this fact. Regardless, the survey results indicated that approximately 7% of survey respondents believed that the proposed rule at WAC 460-20C-025 would increase costs. For all survey respondents, these costs included an average of \$18.67 per employee for professional services and \$18.67 for labor. Of the 7% of survey respondents who indicated that the rule amendments would increase costs, those costs include an average cost increase per employee of \$522.73 for professional services and \$522.73 for labor.

WAC 460-20C-150 Supervision of Salespersons and Employees

The draft rules included a supervision rule at WAC 460-20C-150 that would replace the rule currently at WAC 460-21B-070. As compared to the current rule, the draft rule added that the broker-dealer must reasonably supervise employees (in addition to the current requirement to supervise salespersons), added that the broker-dealer must comply with supervision requirements set forth in FINRA conduct rules, and stated that the director may require heightened supervision as a condition of registration for salespersons with a history of past misconduct or industry or regulatory-related incidents that may pose a risk to customers. The rule also adds that broker-dealers must provide training regarding detecting the financial exploitation of vulnerable adults. The training must be provided to employees who have contact with customers and access to account information on a regular basis and as part of their jobs. This training is currently required in Washington under RCW 74.34.220(3), and therefore does

not represent a new requirement. However, compliance with the draft rule may potentially increase professional services, labor, or administrative expenses related to reviewing supervision procedures to ensure compliance with the rule.

The survey results indicated that approximately 8% of survey respondents believed that the proposed rule at WAC 460-20C-015 would increase costs. For all survey respondents, these costs included an average of \$1.09 per employee for professional services and \$4.34 for administrative costs. Of the 8% of survey respondents who indicated that the rule amendments would increase costs, those costs included an average cost increase per employee of \$27.37 for professional services and \$108.62 for increased administrative costs.

WAC 460-20C-080 Mass Transfer of Salespersons

The draft rules included a new rule, WAC 460-20C-080, to describe the procedure for completing a mass transfer of salespersons from one FINRA-member broker-dealer to another. The rule would require the submission of a roster of all the salespersons the broker-dealer intends to transfer, together with an indication of whether any of the salespersons had disclosable items in Section 14 of Form U4 or were subject to heightened supervision. The draft rule would facilitate the transfer of large numbers of salespersons, with the goal of speeding up the process. The draft rule might increase costs for broker-dealers by requiring the preparation of a roster and a review of which salespersons have disclosable items. However, the rule would only apply in the infrequent event that a broker-dealer merges with or otherwise acquires a large number of salespersons from another broker-dealer.

The survey results indicated that approximately 6% of survey respondents believed that the draft rule at WAC 460-20C-015 would increase costs. For all survey respondents, these costs included an average of \$2.54 per employee for professional services, \$1.21 for labor, and \$1.33 for administrative costs. Of the 6% of survey respondents who indicated that the rule amendments would increase costs, those costs included an average cost increase per employee of \$63.60 for professional services, \$60.61 for labor, and \$33.30 for increased administrative costs.

Lost Sales or Revenue

The Securities Division's survey revealed that 4% of respondents believed that compliance with the draft rule changes would result in lost sales or revenue. In contrast, 96% of respondents did not believe the rule changes would cause lost sales or revenue. For all survey respondents, the estimated lost revenue per employee was \$132.02. The 4% who believed the changes would lead to lost sale or revenue estimated they would lose \$3,367.65 in revenue per employee.

The survey requested a free-form answer regarding which specific provisions in the proposed rules would cause lost sales or revenue. The comments received suggested that spending additional money on legal and compliance matters would mean fewer funds available for advertising. This in turn could decrease revenue. We note that any change in rules will typically result in chief compliance officers or similar employees at a broker-dealer spending time to review and implement any rule changes, including changing processes and educating employees. While these expenses may reasonably represent the activities for which a chief compliance officer is currently compensated, certain broker-dealers may hire outside consultants or incur additional costs to assist with these tasks. Funds spent on compliance would not be available to spend on other activities that might potentially increase revenue.

SECTION 4:

Analyze whether the proposed rule may impose more than minor costs on businesses in the industry.

RCW 19.85.030 provides that an agency must prepare a small business economic impact statement if the agency proposes rules that would impose more than minor costs on businesses in an industry. RCW 19.85.020 defines a "minor cost" as a cost per business that is less than three-tenths of one percent of annual revenue or income, or one hundred dollars, whatever is greater; or one percent of annual payroll.

The Securities Division has determined, based on the results of the survey as described in Section 3, that at least some of the rules may impose more than minor costs on broker-dealers because such costs may exceed \$100.

SECTION 5:

Determine whether the proposed rule may have a disproportionate impact on small businesses as compared to the 10 percent of businesses that are the largest businesses required to comply with the proposed rule. Also, consider, based on input received, whether compliance with the rule will cause businesses to lose sales or revenue.

RCW 19.85.040 requires that the Securities Division determine whether compliance with the proposed rules would have a disproportionate impact on small businesses by comparing the cost of compliance for small business with the costs of compliance for the 10% of businesses that are the largest businesses required to comply with the proposed rules.

The Securities Division categorized each survey response based on whether it came from a small business or whether it represented the 10% of businesses that were the largest businesses that responded. Small businesses are defined by RCW 19.85.020(3) as 50 or fewer employees. We likewise determined the largest 10% of business by the number of employees. We then compared the two categories to each other.

The survey results demonstrated that the increased costs per employee of small businesses were generally greater than the increased costs per employee of the largest 10% of businesses.

The following table compares the average cost increase associated with the draft rules for small businesses and the largest 10% of businesses required to comply and small businesses:

Average Cost Increase – Comparison of Small Business and Largest 10% of Businesses					
Rule Provision	Prof'l Services	Equipment	Supplies	Labor	Admin
Application of Chapter: WAC 460-20C-010					
Small Businesses	135.98	\$ -	\$ -	\$43.18	\$7.58
Largest 10%	\$0.28	\$ -	\$ -	\$ -	\$ -
Cross-Reference to Other Sections: WAC 460-20C-015					
Small Businesses	\$9.76	\$ -	\$ -	\$9.76	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Definitions: WAC 460-20C-020					
Small Businesses	\$ -	\$ -	\$ -	\$ -	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Filings Made Through CRD: WAC 460-20C-025					
Small Businesses	\$25.50	\$ -	\$ -	\$25.50	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Registration Procedure: WAC 460-20C-030					
Small Businesses	\$229.68	\$ -	\$0.74	\$157.44	\$69.86
Largest 10%	\$23.81	\$ -	\$ -	\$ -	\$11.90
Canadian Broker-Dealers and Salespersons: WAC 460-20C-035					
Small Businesses	\$ -	\$ -	\$ -	\$ -	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Examination Requirements: WAC 460-20C-040					
Small Businesses	\$5.56	\$ -	\$0.08	\$4.05	\$1.43
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Notice of Termination of Pending Applications: WAC 460-20C-045					
Small Businesses	\$ -	\$ -	\$ -	\$ -	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Expiration and Renewal of Registration: WAC 460-20C-050					
Small Businesses	\$ -	\$ -	\$ -	\$ -	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Notice of Changes by Broker-Dealers: WAC 460-20C-060					
Small Businesses	\$11.10	\$ -	\$ -	\$11.11	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Submission of Business Email Address: WAC 460-20C-070					
Small Businesses	\$14.91	\$ -	\$ -	\$10.86	\$ -
Largest 10%	\$4.17	\$ -	\$ -	\$ -	\$4.17
Mass Transfer of Salespersons: WAC 460-20C-080					
Small Businesses	\$2.53	\$ -	\$ -	\$1.68	\$0.84
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Termination of Broker-Dealer Registration: WAC 460-20C-090					
Small Businesses	\$ -	\$ -	\$ -	\$ -	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Termination of Salesperson Registration: WAC 460-20C-100					
Small Businesses	\$11.11	\$ -	\$ -	\$11.11	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Minimum Net Capital Requirements: WAC 460-20C-110					
Small Businesses	\$ -	\$ -	\$ -	\$ -	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Reserve and Custody Requirements: WAC 460-20C-120					
Small Businesses	\$ -	\$ -	\$ -	\$ -	\$ -

Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Books and Records of Broker-Dealers: WAC 460-20C-130					
Small Businesses	\$ -	\$ -	\$ -	\$ -	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Financial Reporting Requirements: WAC 460-20C-140					
Small Businesses	\$1.63	\$ -	\$ -	\$0.82	\$0.82
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Supervision of Salespersons and Employees: WAC 460-20C-150					
Small Businesses	\$1.04	\$ -	\$ -	\$ -	\$5.56
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Fraudulent Practices of Broker-Dealers and Salespersons: WAC 460-20C-160					
Small Businesses	\$ -	\$ -	\$ -	\$ -	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Excessive Trading: WAC 460-20C-170					
Small Businesses	\$1.74	\$ -	\$ -	\$ -	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Transmission or Maintenance of Underwriting Payments: WAC 460-20C-180					
Small Businesses	\$ -	\$ -	\$ -	\$ -	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Communications with Public: WAC 460-20C-190					
Small Businesses	\$277.78	\$ -	\$ -	\$ -	\$277.78
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred Variable Annuities: WAC 460-20C-200					
Small Businesses	\$ -	\$ -	\$ -	\$ -	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Dishonest or Unethical Practices – Broker-Dealers: WAC 460-20C-210					
Small Businesses	\$11.11	\$ -	\$ -	\$11.11	\$ -
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -
Dishonest or Unethical Practices – Salespersons: WAC 460-20C-220					
Small Businesses	\$10.81	\$ -	\$ -	\$ -	\$10.81
Largest 10%	\$ -	\$ -	\$ -	\$ -	\$ -

Comparison of lost sales or revenue

The largest 10% of businesses indicated in their survey responses that they would not lose any revenue. The small businesses estimated that they would lose an average of \$182.03 in revenue per employee, with 2 small businesses reporting that they expected to lose revenue because of the rule changes.

Comparison of addition or elimination of jobs

Approximately 2% of survey respondents indicated that the rule changes would cause them to add jobs. This represented 1 business that was one of the 10% of the largest businesses. No respondents indicated that the rule changes would cause them to eliminate jobs. Therefore, with respect to adding or eliminating jobs, there does not appear to be a disproportionate impact on small businesses as compared to the largest 10% of businesses that are required to comply.

SECTION 6:

If the proposed rule is likely to impose a disproportionate impact on small businesses, identify the steps taken to reduce the costs of the rule on small businesses.

In drafting the rule amendments, the Securities Division attempted to balance the business concerns of registered broker-dealers with the Securities Division's mission to protect the investing public and to promote confidence in the capital markets.

As a result of feedback received from affected businesses, the Securities Division made certain revisions to the initial rules draft to reduce the cost of compliance for small businesses. We detail these revisions below. The Securities Division also outlines additional mitigation steps we intend to take to reduce the burden of compliance. The Securities Division does not believe that it can reduce costs further and still accomplish the investor protection purpose of the rulemaking.

Reducing, modifying, or eliminating substantive regulatory requirements

The Securities Division reconsidered the provision in its draft rule at WAC 460-20C-030 that would require all principals of the broker-dealer to register as salespersons in Washington. We removed this requirement. This will reduce registration and administrative expenses for broker-dealers whose principals are not currently registered as salespersons here.

Simplifying, reducing, or eliminating recordkeeping and reporting requirements

The Securities Division revised the draft rules to remove the requirement for the submission of a business email address for each salesperson registered in Washington. This will reduce reporting requirements and any associated administrative expenses.

Reducing the frequency of inspections

The Securities Division does not believe that reducing the frequency of inspections or examinations would be in the interest of the investing public. Therefore, we have not made any changes to the draft rules that would reduce the frequency of inspections or examinations.

Delaying compliance timetables

The Securities Division understands that broker-dealers may require input from outside attorneys or compliance consultants to assist them in understanding and implementing the new rules. The Securities Division will allow broker-dealers adequate time to adjust to the rule changes through existing processes. Through the exam and deficiency letter process, the Securities Division will provide reasonable time for broker-dealers to fix any deficiencies related to the new rules that the staff identifies during its routine examinations of broker-dealers.

Reducing or modifying fine schedules for noncompliance

To reduce potential costs for broker-dealers, the Securities Division revised the draft rule at WAC 460-20C-050 to remove the increase in the delinquency fee to \$200. The delinquency fee that applies to late renewal applications will therefore remain at the current amount of \$100. This will reduce the anticipated expenses associated with the draft rules.

Any other mitigation techniques, including those suggested by small businesses or small business advocates

The Securities Division will consider any comments received on the CR-102 that address how to reduce costs or suggest any additional mitigation techniques. To facilitate compliance with the new rules, the Securities Division will consider developing a Frequently Asked Questions (“FAQ”) publication or other interpretive guidance for distribution to registered broker-dealers. In addition, upon adoption of the rules, the Securities Division will fulfill reasonable requests received from broker-dealers headquartered in Washington to provide training or technical assistance visits regarding compliance with the new rules.

SECTION 7:

Describe how small businesses were involved in the development of the proposed rule.

Throughout the rulemaking process, the Securities Division has involved its registered broker-dealers and interested persons. Many of these broker-dealers are small businesses with fewer than 50 employees.

The Securities Division filed a Form CR-101: Pre-Proposal Statement of Inquiry with the Code Reviser’s Office on April 3, 2023 stating that the Securities Division was considering amending the rules currently in Chapters 460-20B, 460-21B, and 460-22B. On April 18, 2023, the Securities Division electronically mailed the CR-101 to all broker-dealers registered in Washington to solicit comments. At the same time, the Securities Division electronically mailed the CR-101 to its securities rulemaking interested persons list. The Securities Division did not receive any comments on the Form CR-101.

The Securities Division subsequently prepared a draft of possible amendments to the rules that would combine the existing chapters into a new chapter, 460-20C WAC. On December 19, 2023, the Securities Division posted the draft rules on our website, along with a Section-by-Section Analysis detailing the differences between the draft chapter 460-20C WAC and the current rules in chapters 460-20B, 460-21B, and 460-22B WAC. In addition, the Securities Division conducted a survey of all broker-dealers registered in Washington to determine the costs associated with the rule amendments. On December 20, 2023, the Securities Division emailed a link to the draft and a link to the electronic survey to all broker-dealers registered in Washington. The survey period remained open until February 1, 2024.

Following the distribution of the initial draft and the completion of the survey, the Securities Division revised the draft rules in response to feedback received from broker-dealers in the survey. The Securities Division now intends to proceed with the rulemaking by formally proposing chapter 460-20C WAC in a CR-102 filing with the Code Reviser. The Securities Division will distribute the CR-102 to our registered broker-dealers and our securities rulemaking interested persons list. Broker-dealers and

all interested members of the public will have an opportunity to submit comments on the proposed rule and participate in the rulemaking hearing.

SECTION 8:

Identify the estimated number of jobs that will be created or lost as the result of compliance with the proposed rule.

The results of the survey indicated that no jobs would be eliminated as a result of the proposed rules. One survey respondent indicated that one job would be added as a result of the proposed rules.

SECTION 9:


Summarize the results of the analysis, including the determination if costs are disproportionate.

As discussed in Section 5 above, the survey indicated that several of the rules may impose disproportionate cost on small businesses as compared to the largest 10% of businesses required to comply with the rules. To mitigate this, the Securities Division revised its draft rules to lower costs as detailed in Section 6.

While the potential rule changes may increase costs to licensees, the Securities Division believes the increased investor protection outweighs the concerns regarding cost increases. Further, we note that the rules were drafted consistent with requirements under federal law and subject to the restrictions of NSMIA. To the extent that there will be remaining disproportionate costs on small businesses, we note that as demonstrated in Section 3, the survey respondents, including small businesses, indicated that most rules would not cause additional expense.

The public may obtain a copy of the small business economic impact statement or the detailed cost calculations by contacting:

Name: Jill Vallely
Address: P.O. Box 41200, Olympia, WA 98504-1200
Phone: (360) 902-8801
Fax: (360) 902-0524
TTY: 1-800-833-6384
Email: jill.vallely@dfi.wa.gov
Other:

Date: 5/3/2024	Signature: 
Name: Charlie Clark	
Title: Director, Department of Financial Institutions	